

# Half Year Report 2006-07

## April-September

At the heart of power electronics



### Dear Shareholders,

LEM has gone through a significant change process and is now successfully embarked on a 'pure play' components strategy, focussing on our competence and worldwide leadership of measuring electrical parameters. To reinforce this message we have a new corporate logo, a new communications platform and will also be launching a new website.

With sales of CHF 88.6 million for the first half of the financial year, plus 27% compared to the previous year, LEM is well on track to deliver yet another year of solid profitable growth. EBIT reached CHF 11.2 million (plus 94%) and net earnings grew from CHF 1.7 to CHF 6.2 million.

The orders received grew by 29% to CHF 92.3 million reflecting a healthy book to bill ratio of 1.04. And several new products are or will be launched in the year to assure our future growth above industry average.

Looking forward, the strategic drivers for the growth in LEM's business remain sound. LEM is currently benefiting from the general upswing in all the energy related markets.

- The developed countries have an increased interest in precise regulation and increased comfort of their applications. Achieving energy savings and the implementation of renewable energy have become a point of focus. These are all areas where LEM's contribution will have a major impact.
- In the emerging regions the demand is high for more and more energy with an increased level of reliability. Given the shortage situation there is a need for renewable energy as a source. Here again LEM's innovative products are attractive, the more that LEM has now a major presence in Asia, China and Japan.
- Power electronics are playing an increasing role in the Automotive sector, both for regular cars and for hybrid and electrical vehicles.

This financial result is due to the effects of good volume leverage of sales growth and continuous operational improvements, despite the strong rise in raw material cost, which has limited the gross margin evolution. Thanks to the hard work of our dedicated employees the growth was achieved without a notable increase in the overhead costs.

### Ongoing strong sales growth in the Industrial Segment

Sales in the Industrial Segment achieved yet another significant increase of 27% versus the previous period. Total Sales amounted to CHF 77.6 million compared to the same time last year of CHF 61.3 million. EBIT for this Segment amounts to CHF 10.8 million which is an 80% boost from last year's CHF 6.0 million. Europe and Asia have been contributing most to this growth with respectively 29% and 27%, in NAFTA the growth was 17%.

All markets contributed to this growth. For Industry related markets main drivers were the variable motor control applications and the new energy and power supply applications. In the Traction market, growth was 11.9% and in the Energy & Automation markets sales more than doubled.

#### More moderate growth in the Automotive Segment

The Automotive Segment continued its successful build up by reaching total sales of CHF 11.0 million which represents a 28% increase compared to the same period last year. EBIT for the Segment developed from a negative CHF 0.2 million into a positive CHF 0.4 million for the period.

Sales in this Segment are driven by two main areas of application. Firstly the Battery Management, which is now being rolled out beyond the SUV and hybrid electric vehicles. Secondly the applications in drives, in which formerly hydraulic parts are being replaced by electric versions such as for EPS – Electric Power Steering.

The lower demand in the American SUV market has slowed down the growth rate, which was partly compensated by the increased demand in Asia. Asia has been contributing the most towards growth with an increase of over 100% for both applications.

#### China build-up

Our development in China is continuing at a high pace, sales have increased by 33% and we have raised the production output by 87%.

#### Personnel

Ageeth Walti has joined LEM's Senior Management team as CFO, taking over from Heinz Stübi, who had been the acting CFO since February, 2006. We would like to welcome Ageeth and express our sincere gratitude to Heinz for his contribution to LEM over the past months.

We would also like to welcome Hiroaki Mizoguchi to LEM in Japan as new Representative Director.

#### Outlook increased

The continued growth in both Segments shows that we are well on track to meet our goal of delivering another year of double digit growth. Compared to last year which was composed of a moderate first semester and a strong final semester, we are now increasing the sales outlook for the full year to a growth of 15-18%.

Taking benefit of our presence in China, we have accelerated the transfer to a lower cost supply chain, whilst maintaining the solid LEM quality performance.

During the year we will launch another two major products, in addition to the launch of the Sentinel – the transducer for Battery Monitoring last June. We are confident that these products will contribute to our profitable growth next year.

We appreciate your loyalty and extend our best wishes to you,



Felix Bagdasarjanz  
Chairman of the Board



Paul Van Iseghem,  
President and CEO

## Financial Overview of LEM Group

CHF million, except per share data	HY 2005/06	HY 2006/07
Sales	69.9	88.6
Gross margin	28.4	36.3
in % of sales	40.6%	41.0%
Operating expenses	-22.6	-25.1
in % of sales	32.3%	28.3%
EBIT	5.8	11.2
in % of sales	8.3%	12.7%
Net Earnings from Continuing Operations	1.7	6.2
in % of sales	2.5%	7.0%
Working capital *	26.8	35.2
Capital employed *	39.3	52.0
Return on Capital Employed ( ROCE )	28%	47%
Share price *	119	153
Earnings per share continuing operations	1.4	5.3

\* at 30.9.

In CHF million

	2005/06				2006/07		2005/06	2006/07	Variances	
	Q1	Q2	Q3	Q4	Q1	Q2	1HY	1HY	YoY	QoQ
<b>Orders received</b>										
INDUSTRIAL	30.1	32.6	38.8	44.8	39.5	42.3	62.8	81.8	30%	7%
AUTO	4.3	4.7	5.3	6.0	5.6	4.9	9.0	10.5	16%	-12%
TOTAL	34.4	37.4	44.1	50.8	45.1	47.2	71.8	92.3	29%	5%
<b>Sales</b>										
INDUSTRIAL	30.4	30.9	32.6	38.4	37.9	39.6	61.3	77.6	27%	5%
AUTO	3.7	4.8	5.2	5.6	5.7	5.4	8.6	11.0	28%	-5%
TOTAL	34.1	35.8	37.7	44.0	43.6	45.0	69.9	88.6	27%	3%
<b>EBIT</b>										
INDUSTRIAL	2.8	3.2	3.5	5.7	5.2	5.7	6.0	10.8	80%	10%
AUTO	(0.4)	0.2	0.3	0.2	0.2	0.2	(0.2)	0.4	268%	-25%
TOTAL	2.4	3.4	3.8	6.0	5.4	5.8	5.8	11.2	94%	8%

Please consult our website for further information on [www.lem.com](http://www.lem.com) or please call Ageeth Walti at + 41 22 706 12 20.

### Consolidated Balance Sheet

<b>Assets</b>	<b>30.09.06</b>	<b>31.03.06</b>
	<b>TCHF</b>	<b>TCHF</b>
<b><u>Current assets</u></b>		
Cash and cash equivalents	10'723	25'395
Trade and other receivables	32'839	28'724
Other current assets	5'996	5'690
Inventories	24'786	19'907
<b>Total current assets</b>	<b>74'344</b>	<b>79'716</b>
<b><u>Non-current assets</u></b>		
Deferred tax assets	1'536	2'073
Other financial assets	309	371
Property, plant and equipment	15'925	15'025
Intangible assets	4'425	4'584
<b>Total non-current assets</b>	<b>22'195</b>	<b>22'053</b>
<b>Total assets</b>	<b>96'539</b>	<b>101'769</b>
<b><u>Liabilities and shareholders' equity</u></b>		
	<b>30.09.06</b>	<b>31.03.06</b>
	<b>TCHF</b>	<b>TCHF</b>
<b><u>Current liabilities</u></b>		
Trade and other payables	14'639	10'916
Other current liabilities	10'409	13'944
Current income tax payable	3'303	1'232
Current financial liabilities	5'934	589
<b>Total current liabilities</b>	<b>34'285</b>	<b>26'681</b>
<b><u>Non-current liabilities</u></b>		
Provisions	3'276	3'287
Non-current financial liabilities	604	632
Deferred tax liabilities	1'428	1'428
<b>Total non-current liabilities</b>	<b>5'308</b>	<b>5'347</b>
<b>Total liabilities</b>	<b>39'593</b>	<b>32'028</b>
<b><u>Shareholders' equity</u></b>		
Share capital	600	600
Reserves	26'916	27'703
Retained earnings	29'289	41'315
Minority interests	141	123
<b>Shareholders' equity</b>	<b>56'946</b>	<b>69'741</b>
<b>Total liabilities and shareholders' equity</b>	<b>96'539</b>	<b>101'769</b>

## Consolidated Income Statement

	April to September	
	Actual 2006/07 TCHF	Actual 2005/06 TCHF
<b>Continuing Operations</b>		
Sales	88'602	69'886
Cost of goods sold	-52'305	-41'528
<b>Gross margin</b>	<b>36'297</b>	<b>28'358</b>
Sales expense	-10'276	-9'098
Administration expense	-10'312	-8'534
Research & development expense	-4'650	-5'211
Other expense	-176	-107
Other income	359	386
<b>Earnings before interests and taxes</b>	<b>11'242</b>	<b>5'794</b>
Financial expense (net)	-612	-2'891
<b>Earnings before taxes</b>	<b>10'630</b>	<b>2'903</b>
Income taxes	-4'405	-1'176
<b>Net earnings from Continuing Operations</b>	<b>6'225</b>	<b>1'727</b>
<b>Discontinued Operations</b>		
<b>Earnings from Discontinued Operations</b>	0	17'922
<b>Net earnings</b>	<b>6'225</b>	<b>19'649</b>
Attributable to :		
LEM shareholders	6'182	19'617
Minorities interests	43	32
<b>Net earnings</b>	<b>6'225</b>	<b>19'649</b>
<b>Earnings per share continuing operations</b>	<b>CHF</b>	<b>CHF</b>
Earnings per share undiluted	5.3	1.4
Earnings per share diluted	5.2	1.4
<b>Earnings per share discontinued operations</b>		
Earnings per share undiluted	0.0	14.9
Earnings per share diluted	0.0	14.9

### Consolidated Cash Flow Statement

	April to September	
	2006/07 TCHF	2005/06 TCHF
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Net earnings from continuing operations</b>	6'225	1'727
Adjustment for non-cash items		
- Taxes	4'405	1'176
- Net financial result	254	2'318
- Expenses for share-based payments	491	260
- Depreciation	2'173	2'379
- Increase (+) / decrease (-) of provisions	227	(177)
Interest received	172	89
Interest paid	(426)	(2'321)
Taxes paid	(1'658)	(2'903)
<b>Cash flow before changes in net working capital</b>	<b>11'863</b>	<b>2'548</b>
Conversion differences on cash flows	(3)	73
Change in inventory	(4'459)	5'357
Change in receivables	(5'319)	(1'043)
Change in payables	221	(5'663)
<b>Cash flow from changes in net working capital</b>	<b>(9'560)</b>	<b>(1'276)</b>
<b>Cash flow from operating activities</b>	<b>2'303</b>	<b>1'272</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Investment in tangible fixed assets	(3'418)	(1'716)
Disposal of tangible fixed assets	366	572
Investment in intangible fixed assets	(81)	(117)
Increase (-) / decrease (+) in long-term financial assets	53	147
<b>Cash flow from investing activities</b>	<b>(3'080)</b>	<b>(1'114)</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Repayment of share capital	0	(29'400)
Proceeds from disposals of treasury shares	0	3'354
Treasury shares acquired via share buy-back program	(6'973)	0
Dividends paid to the shareholders of LEM Holding SA	(11'725)	0
Dividends paid to minorities	(26)	0
Increase (+) / decrease (-) in financing	5'286	(29'941)
<b>Cash flow from financing activities</b>	<b>(13'438)</b>	<b>(55'987)</b>
<b>Net cash flow discontinued operations</b>	<b>0</b>	<b>48'952</b>
<b>Change in cash and cash equivalents</b>	<b>(14'215)</b>	<b>(6'877)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>25'395</b>	<b>32'621</b>
Exchange effect on cash and cash equivalents	(457)	301
<b>Cash and cash equivalents at the end of the period</b>	<b>10'723</b>	<b>26'045</b>



### Consolidated Shareholders' Equity

TCHF	Share capital	Other reserves	Treasury shares	Retained earnings	Minority interest	Total
<b>Balance on 01.04.05</b>	<b>30'000</b>	<b>28'764</b>	<b>(2'688)</b>	<b>10'404</b>	<b>63</b>	<b>66'543</b>
Changes in capital	(29'400)					(29'400)
Currency translation difference		1'738			4	1'742
Treasury shares		665	2'688			3'353
Stock option plan		253				253
Change of scope of consolidation		789				789
Net earnings				19'617	32	19'649
<b>Balance on 30.09.05</b>	<b>600</b>	<b>32'209</b>	<b>0</b>	<b>30'021</b>	<b>99</b>	<b>62'929</b>

<b>Balance on 01.04.06</b>	<b>600</b>	<b>27'703</b>	<b>0</b>	<b>41'315</b>	<b>123</b>	<b>69'741</b>
Currency translation difference		(787)			1	(786)
Treasury shares			(6'973)			(6'973)
Stock option plan				490		490
Dividends paid				(11'725)		(11'725)
Dividends paid to minority interests					(26)	(26)
Net earnings				6'182	43	6'225
<b>Balance on 30.09.06</b>	<b>600</b>	<b>26'916</b>	<b>(6'973)</b>	<b>36'262</b>	<b>141</b>	<b>56'946</b>

### Segment information

April - September 2005	Continuing operations			Discontinued	LEM Group Total
	Industrial	Automotive	Total		
<b>TCHF</b>					
Orders received	62'768	9'024	71'792	11'787	<b>83'579</b>
Sales	61'288	8'598	69'886	13'303	<b>83'189</b>
EBIT	6'029	-235	5'794	-804	<b>4'990</b>

April - September 2006	Continuing operations			Discontinued	LEM Group Total
	Industrial	Automotive	Total		
<b>TCHF</b>					
Orders received	81'824	10'479	92'303	0	<b>92'303</b>
Sales	77'558	11'044	88'602	0	<b>88'602</b>
EBIT	10'847	395	11'242	0	<b>11'242</b>

## Notes to the interim consolidated financial statements

### 1. Nature of operations

LEM is a market leader in providing innovative and high quality solutions for measuring electrical parameters. Our core products - current and voltage transducers - are used in a broad range of applications in industrial, traction, energy and automotive markets.

### 2. Basic principles of group accounting

The consolidated financial statements for the six months ending on September 30, 2006 have been prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with IAS-34 'Interim Reporting'.

The group auditors Ernst & Young performed a limited review of the financial figures presented.

The consolidated statements are based on the accounting principles stated in the 2005/2006 Annual Report of the LEM Group, which were applied without changes.

### 3. Deferred taxes

Due to the use of tax losses carried forward in the US, the deferred tax assets of TCHF 2'073 on March 31, 2006 decreased to TCHF 1'536 on September 30, 2006.

### 4. Shareholders' equity

#### Dividend

At the shareholders' meeting held in Geneva on June 30, 2006, the shareholders approved the distribution of an ordinary dividend of CHF 2.50 per share, supplemented by an extra-ordinary dividend of CHF 7.50 per share. The ex-dividend day was July 5, 2006. The total amount spent for the gross dividend was TCHF 11'725. In the previous year the shareholders approved a capital reduction from CHF 100 to CHF 2 per share, which corresponded to a share capital reduction from TCHF 30'000 to TCHF 600.

#### Share buy-back program

On June 12, 2006, LEM Group launched a share buy-back program to purchase shares in an aggregate amount of up to TCHF 8'000 via a separate trading line. As a result of this program, on September 30, 2006 LEM Group held 45'000 treasury shares (on 31.03.2006 LEM Group did not hold any treasury shares).

### 5. Stock option plan

On May 26, 2006 the Board of Directors approved a new stock option plan for the management team and the directors. Each of the 29'750 options gives the right to buy one LEM share at a strike price of CHF 139.80 during the exercise period from April 1, 2009 to March 31, 2011. The total expenses for stock options in the half-year 2006/07 were TCHF 490, which were booked against equity, since all the plans are equity settled.

### 6. Events after the balance sheet date

On November 3, 2006 the share-buy back program was completed resulting in the acquisition of 50'000 own shares via a separate trading line. The Board of Directors intends to propose to the Shareholders' Meeting in 2007 the destruction of these shares and a consequent reduction of the share capital.

Between the balance sheet reference and the approval of the consolidated financial statements by the Board of Directors on November 3, 2006, no further significant events occurred which might make the 2006/07 consolidated financial statements for the six months ending on September 30, 2006 less meaningful or which would warrant disclosure at this point.

### 7. Exchange rates

The following exchange rates were used:

	Period-end rate for balance sheet		Period average rate for income statement	
	30.09.06	31.03.06	2006/07	2005/06
EUR	1.586	1.576	1.57	1.549
GBP	2.341	2.27	2.296	2.275
JPY	0.0106	0.0111	0.0108	0.0114
USD	1.25	1.305	1.241	1.25
RUB	0.047	0.047	0.046	0.044
MYR	0.34	0.354	0.341	0.33
CNY	0.158	0.163	0.156	0.153